

Message Text

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PAGE 01 PARIS 35372 01 OF 02 051643Z
ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 DODE-00
PM-05 H-01 L-03 NSC-05 PA-01 PRS-01 SS-15 /109 W
-----057881 051732Z /50

R 051546Z DEC 77

FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2597
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

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USMTN: PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A

SUBJECT: SEASONAL ADJUSTMENT MECHANISMS MAINLY
RESPONSIBLE FOR DISCREPANCIES IN UNEMPLOYMENT DATA

REF: PARIS 33880

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PAGE 02 PARIS 35372 01 OF 02 051643Z

SUMMARY: THE CONTRADICTORY TRENDS NOTED IN THE
SEPTEMBER AND OCTOBER SEASONALLY ADJUSTED AND
UNADJUSTED UNEMPLOYMENT DATA (SEE REFTEL) CAN BE
LARGELY ATTRIBUTED TO DEFECTS IN INSEE'S SEASONAL
ADJUSTMENT MECHANISM. END SUMMARY

1. ALTHOUGH SEASONALLY ADJUSTED UNEMPLOYMENT

DECREASED FOR THE FIRST TIME IN 1977 FROM 1,215,900
IN AUGUST TO 1,100,000 IN OCTOBER, UNADJUSTED
STATISTICS SHOWED AN INCREASE FROM 1,063,900 TO
1,205,800 DURING THE SAME PERIOD. EXAMINATION OF
1977 DATA REVEALS A CURIOUS PATTERN OF SHARPLY
ESCALATING ADJUSTED UNEMPLOYMENT FROM DECEMBER
THROUGH AUGUST WHILE UNADJUSTED UNEMPLOYMENT DECLINED
FROM JANUARY THROUGH JUNE. A SOURCE AT INSEE EXPLAINS
THIS PHENOMENON AS BEING DUE TO PROBLEMS IN THE
SEASONAL ADJUSTMENT MECHANISM.

2. ACCORDING TO THIS SOURCE, TWO FACTORS HAVE
CONTRIBUTED TO THIS PROBLEM:

A) THE EXCEPTIONALLY SHARP INCREASE IN THE LEVEL
OF UNEMPLOYMENT WHICH HAS RESULTED IN A DOUBLING
OF UNEMPLOYMENT IN FRANCE SINCE 1974.

B) CHANGES IN THE MIX OF THE COMPONENTS OF UNEMPLOY-
MENT.

3. INSEE EMPLOYS A MULTIPLICATIVE ADJUSTMENT MECHANISM
TO ADJUST UNEMPLOYMENT DATA FOR SEASONAL VARIATION.
THIS MECHANISM HAS PROVEN TO BE NOT SUFFICIENTLY
FLEXIBLE TO COPE WITH THE RECENT SHARP INCREASE IN
UNEMPLOYMENT IN FRANCE AND, CONSEQUENTLY, DISTORTIONS
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PAGE 03 PARIS 35372 01 OF 02 051643Z

HAVEN BEEN CREATED IN THE SEASONAL ADJUSTED SERIES.
THIS PROBLEM IS NOT UNIQUE TO FRANCE; ACCORDING
TO THIS SOURCE, THE US, UK, GERMANY AND OTHER
COUNTRIES ARE ALSO EXPERIENCING DIFFICULTIES WITH
THEIR SERIES OF SEASONALLY ADJUSTED UNEMPLOYMENT. THE

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PAGE 01 PARIS 35372 02 OF 02 051634Z
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UK HAS BEEN FACED WITH THIS PROBLEM SINCE THE 1960'S
WHILE OTHER COUNTRIES HAVE BEEN AFFECTED BY IT SINCE
1973. STUDIES ARE BEING CONDUCTED IN VARIOUS
COUNTRIES TO ALLEVIATE THIS PROBLEM. A CROSS-COUNTRY
SURVEY OF THIS PROBLEM IS CURRENTLY BEING PREPARED
FOR THE EC.

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PAGE 02 PARIS 35372 02 OF 02 051634Z

4. AN ADDITIONAL, ALTHOUGH NOT AS IMPORTANT, FACTOR WHICH HAS CREATED DISTORTIONS IN THE SEASONALLY ADJUSTED UNEMPLOYMENT DATA IS THE EVOLVING CHANGE IN THE RELATIVE MIX OF UNEMPLOYMENT. THE RELATIVE IMPORTANCE OF YOUTH AND WOMEN IN THE WORK FORCE AND UNEMPLOYED HAS BEEN INCREASING WHILE THAT OF MEN AND OLDER PERSONS HAS BEEN DECLINING. SINCE EACH OF THESE COMPONENTS HAS A DIFFERENT SEASONAL PATTERN, IDEALLY EACH SHOULD BE ADJUSTED INDIVIDUALLY FOR SEASONAL VARIATION IN ORDER TO ACCOUNT FOR THE CHANGE IN RELATIVE IMPORTANCE OF EACH COMPONENT. HOWEVER, FRANCE ADJUSTS THE AGGREGATE, THUS CREATING SOME DISTORTIONS IN THE SEASONALLY ADJUSTED UNEMPLOYMENT STATISTICS.

5. ACCORDING TO OUR SOURCE, THE 1977 SEASONAL ADJUSTMENT COEFFICIENTS WHICH WERE ADOPTED LAST WINTER HAVE BEEN OVERADJUSTING THE UNEMPLOYMENT DATA, INSEE WAS AWARE OF THIS PROBLEM EARLY IN THE YEAR. HOWEVER, TO AVOID ANY CHARGES OF TAMPERING WITH THE UNEMPLOYMENT STATISTICS, IT IS NOT PERMITTED TO CHANGE THE ADJUSTMENT COEFFICIENTS. THUS, IT WILL HAVE TO WAIT UNTIL 1978 TO CORRECT THIS PROBLEM. BASED ON THE PATTERN OF PRODUCTION, A MORE REALISTIC PICTURE OF THE TREND IS SEASONALLY ADJUSTED UNEMPLOYMENT SHOULD SHOW A DECREASE IN UNADJUSTED UNEMPLOYMENT FOR THE FIRST HALF OF 1976, FOLLOWED BY AN INCREASE THROUGH OCTOBER 1977, BUT A MUCH MORE MODERATE RATE OF GROWTH THAN IS INDICATED BY THE CURRENT SERIES. OUR SOURCE ESTIMATES THAT, OF THE DECREASE OF APPROXIMATELY 100,000 IN THE NUMBER OF SEASONALLY UNEMPLOYED IN SEPTEMBER AND OCTOBER, APPROXIMATELY 50,000 WERE DUE

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PAGE 03 PARIS 35372 02 OF 02 051634Z

TO IMPERFECTIONS IN THE ADJUSTMENT MECHANISM. ANOTHER 20,000 COULD BE ACCOUNTED FOR BY MEASURES TO TIGHTEN THE UNEMPLOYMENT ROLLS. THEREFORE, THE ACTUAL DECLINE IN SEASONAL UNEMPLOYMENT DURING THESE TWO MONTHS WAS ONLY 30,000 AT A MAXIMUM. SEASONALLY ADJUSTED UNEMPLOYED SHOULD REMAIN AT ITS CURRENT LEVEL THROUGH FEBRUARY ALTHOUGH THIS TREND MAY NOT BE ACCURATELY REFLECTED BY THE PUBLISHED SERIES OF ADJUSTED UNEMPLOYMENT STATISTICS.

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Disposition Approved on Date:
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